

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation on the Commission's Own Motion into the Reasonableness of the Rates Currently in Effect, and Other Matters, for Valencia Water Company (U342W), a Corporation.

I. _____

**ORDER INSTITUTING INVESTIGATION INTO THE REASONABLENESS OF
THE RATES CURRENTLY IN EFFECT AND THE RATES PROPOSED
IN A PENDING GENERAL RATE CASE AND COST OF CAPITAL
PROCEEDING AND CONSOLIDATING PROCEEDINGS**

1. Summary

The Commission regulates Valencia Water Company's (Valencia) rates, operations, practices, services, and the reliability, safety, and adequacy of facilities, pursuant to Pub. Util. Code §§ 451, 454, and other code sections. The Commission determines the manner and extent of such regulation in general rate case proceedings and other forums. Valencia informed the Commission in Valencia's current general rate case, Application (A.) 13-01-003 that its common stock has been or will be acquired by the Castaic Lake Water Agency (Agency). As discussed below, this Order Instituting an Investigation (Investigation) is needed in order to fully examine factual and legal issues raised in the general rate case or apparent transfer of control to Agency and to consider relief as appropriate.

This Investigation is consolidated with A.13-01-003, Valencia's general rate case, A.13-01-004, Valencia's cost of capital application, and Case 13-01-005.

2. Background

In accordance with the Rate Case Plan for Class A Water Companies (as adopted and modified by the Commission's Decision (D.) 04-06-018 and D.07-05-062), and with Rule 6(a), Article 4, and Article 6 of the Commission's Rules of Practice and Procedure (Rules), Valencia Water Company (Valencia) filed its general rate case Application (A.) 13-01-003 for Test Years beginning January 1, 2014 and January 1, 2015, and for an Escalation Year beginning January 1, 2016. Valencia also filed A.13-01-004 to update its cost of capital.

Valencia asserts in the rate case application that the Castaic Lake Water Agency (Agency), a public agency that obtains water from the State Water Project for sale on a wholesale basis to Valencia and other retail water purveyors in the Santa Clarita Valley, is pursuing a Superior Court action in eminent domain with the intention of acquiring all the capital stock of Valencia. Valencia further states that it expects this change of ownership and control is likely to be completed no later than early 2013. (A.13-01-003 at 28.) Several parties have filed Case (C.) 13-01-005 opposing the transfer of control and making other various allegations.

By a separate ruling dated January 31, 2013, Valencia has been ordered to file an application for a transfer of control. On March 11, 2013, Valencia filed a Compliance Filing providing more information on the eminent domain transaction.

3. Discussion

Valencia has included in its current rates allowances for, among other things: state and federal income taxes, the rate effect of deferred taxes, property

taxes, and a competitive market based return on equity. Agency is a public entity which would appear not to incur any taxes or have any equity in the form of common stock held by investors. If in fact this transaction to transfer the common stock of Valencia to Agency subsequently proves to be, or to have been, a valid and legal transfer of control of a cost of service rate regulated utility subject to the jurisdiction of this Commission, the rates in effect as of the date of the transfer may be unjust and unreasonable. Therefore, it is reasonable to make rates currently in effect for Valencia subject to refund pending final decisions in A.13-01-003 and any other related pending matters that may affect Valencia's rates in the future.

To track possible over-collection of rates subject to refund, Valencia must file within 10 days after the effective date of this Order a Tier I advice letter creating the Transfer of Control Memorandum Account.

We also open this companion Investigation to A.13-01-003 and C.13-01-005, pursuant to Rule 5.1, to allow the Commission to consider proposals other than those of applicant or the initial complainants. This Investigation allows the Commission to enter orders on matters where the utility may not be the proponent. This Investigation also affords parties an opportunity and forum to provide evidence on issues of interest to the Commission, which may result in directives to Valencia that serve the public interest and that result in just and reasonable rates, services, and facilities. Valencia and Agency are named respondents.

4. Authority, Categorization, Need for Hearings and Presiding Officer

This Investigation is opened pursuant to Rule 5.1 § 1701 et seq.

Pursuant to § 1701.1(a) this proceeding is categorized as ratesetting and requires evidentiary hearings. Pursuant to § 1701.3(a) Administrative Law Judge Douglas M. Long is designated as Presiding Officer.

5. Waiver of Comment Period

Pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, all parties stipulated to waive the 30-day public review and comment period required by § 311 of the Public Utilities Code and the opportunity to file comments on the proposed decision. Accordingly, this matter was placed on the Commission's agenda directly for prompt action.

O R D E R**IT IS ORDERED** that:

1. Valencia Water Company and the Castaic Lake Water Agency are named as respondents and are parties to this proceeding pursuant to Rule 1.4(d) of the Commission's Rules of Practice and Procedure.

2. This Order Instituting an Investigation (Investigation) is opened as a companion to, and is consolidated with, Applications 13-01-003 and 13-01-004 and Case 13-01-005, pursuant to Rule 7.4 of the Commission's Rules of Practice and Procedure. The purpose of this Investigation is to take evidence and enter orders within the jurisdiction of the Commission in connection with Valencia Water Company's current and proposed revenue requirement, rates, operations, practices, services, and facilities.

3. Valencia Water Company (Valencia) is hereby placed on notice that the Commission, for good cause, and to advance the public interest, may enter orders regarding matters beyond those requested by Valencia in the companion and consolidated proceedings, Applications 13-01-003 and 13-01-004 or proposed by Complainants in Case 13-01-005.

4. This Ordering Paragraph constitutes the "preliminary scoping memo" required by Rule 7.3 of the Commission's Rules of Practice and Procedure (Rules). We classify the Order Instituting an Investigation as ratesetting (Rule 7.1(c)). This Order's categorization of the investigation as ratesetting may be appealed pursuant to Rule 7.6. There is a need for evidentiary hearings in the consolidated proceedings. The scope of this proceeding is set forth in the body of this Order. The schedule for the consolidated proceeding will be separately set forth in the assigned Commissioner's Ruling and Scoping Memo in Applications 13-01-003, 13-01-004, and Case 13-01-005.

5. Valencia Water Company (Valencia) must file a Tier I advice letter within 10 days of the effective date of this Order to establish a Transfer of Control Memorandum Account. Valencia's rates are subject to refund for any components currently included in rates which would be unjust and unreasonable costs of service by a public utility subject to the jurisdiction of this Commission wholly owned by the Castaic Lake Water Agency.

6. The assigned Administrative Law Judge (ALJ) shall have ongoing oversight of the service list and may institute changes to the list or the rules governing it, as needed and ALJ Douglas M. Long is designated as Presiding Officer.

7. The Executive Director will ensure this Order is served on all respondents and on the service lists for Applications 13-01-003, 13-01-004 and Case 13-01-005 as identified in Attachment A.

8. The initial service list for this proceeding is the consolidated service list from Applications 13-01-003, 13-01-004, and Case 13-01-005. This list may be updated from time to time by the assigned Administrative Law Judge and those allowed by the Commission's Rules of Practice and Procedure.

9. Parties serving documents in this proceeding must comply with Rule 1.10 of the Commission's Rules of Practice and Procedure regarding electronic mail (e-mail) service. Parties providing e-mail service must also provide a paper copy to both the assigned Commissioner and Administrative Law Judge.

This order is effective today.

Dated _____, at San Francisco, California.